

PRIME MINISTER

ELECTRICITY PRICES

For once I have doubts as to whether the Chancellor's proposal has been presented in the most effective way.

(i) I think it is a mistake to roll together recouping the cost of oil burn with the regular increase required next year. This will allow the industry to argue, with some justification, that the IFR discussions have not yet taken place and the financial target for 1985-86 has not yet been settled. Missing from both Ministerial papers is any discussion of what difference oil burn is making to the rate of return which the industry is earning in 1984-85.

(ii) I do not hold out much hope that the tactic of having this presented as an initiative of the industry will succeed. This is particularly so if, at the same time, emphasis is put on the need to recoup the cost in order to control public expenditure.

(iii) If and when this comes to Cabinet colleagues, I feel Mr. Walker's arguments on the relationship of this to the handling of the miners' strike is likely to prevail.

I have consulted Bernard about the presentation and he believes that the best way is to bring in a separately identifiable surcharge immediately the strike ends which would be seen as "the cost of Scargill".

You will want to consider how to secure wider Ministerial endorsement for whatever conclusions the meeting reaches.

20 July 1984